

**REPORT OF THE AUDIT OF THE  
LETCHER COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LETCHER COUNTY SHERIFF**

**For The Year Ended  
December 31, 2010**

The Auditor of Public Accounts has completed the Letcher County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$1,008 from the prior year, resulting in excess fees of \$26 as of December 31, 2010. Revenues decreased by \$2,752 from the prior year and expenditures decreased by \$1,744.

#### **Report Comment:**

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	11
COMMENT AND RECOMMENDATION .....	15





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jim Ward, Letcher County Judge/Executive  
The Honorable Danny Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Letcher County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2011 on our consideration of the Letcher County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Ward, Letcher County Judge/Executive  
The Honorable Danny Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Letcher County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

November 10, 2011

LETCHER COUNTY  
DANNY WEBB, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

Federal - High Intensity Drug Trafficking Area (HIDTA)	\$	18,980	
State Grants		9,620	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		20,790	
State Fees For Services		41,966	
Circuit Court Clerk		1,540	
Fiscal Court		190,386	
County Clerk - Delinquent Taxes		27,778	
Letcher County Board of Education: School Resource Officer			46,013
Commission On Taxes Collected			302,218
Fees Collected For Services:			
Auto Inspections	\$	3,019	
Accident and Police Reports		353	
Serving Papers		33,678	
Carrying Concealed Deadly Weapon Permits		8,715	45,765
Other:			
Add-On 10% Sheriff's Fees		33,478	
Conveying Prisoners		8,100	
Forfeitures		1,120	
Reimbursement for Jurors		559	
Refunds		2,454	45,711
Interest Earned			1,408
Borrowed Money:			
State Advancement		110,000	
Bank Note		20,000	130,000
Total Revenues			882,175

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY  
DANNY WEBB, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2010  
(Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$	162,095	
Court Security		46,596	
Office Salaries		45,644	
Dispatchers		89,396	
KLEFPF		15,619	
School Resource Officer		42,125	
Victims Advocate		29,392	\$ 430,867

Employee Benefits-

Employer's Share Social Security		36,384	
Employer's Share Retirement		10,411	
Employer Paid Health and Life Insurance		27,207	74,002

Contracted Services-

Computer		393	
Water		445	
Accounting		2,629	3,467

Materials and Supplies-

Office Materials and Supplies		6,275	
Uniforms		11,579	17,854

Auto Expense-

Gasoline		44,833	
Maintenance and Repairs		23,505	68,338

Other Charges-

Conventions and Travel		5,245	
Dues		538	
Postage		11,083	
Bond		2,340	
Carrying Concealed Deadly Weapon Permits		3,085	
Food for Jurors		586	
Copy Machine		1,486	
Phone/Cable		19,887	
Transport Prisoners		4,700	
Refund		40	
Bank Fee on Note		50	
Miscellaneous		715	49,755

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY  
DANNY WEBB, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2010  
(Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	110,000	
Bank Note		20,000	
Lease Payments on Vehicles		22,798	\$ 152,798

Total Expenditures			\$ 797,081
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Net Revenues			85,094
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Less: Statutory Maximum			81,540
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Excess Fees			3,554
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Less: Training Incentive Benefit			3,528
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Excess Fees Due County for 2010			\$ 26
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LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent for the first six months and 33.25 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Letcher County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Letcher County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. State Grants

A. Victim Advocate Funding

The Letcher County Sheriff's office received funding through the Office of the Attorney General, Frankfort, KY for a victim advocate staff position. The Sheriff's office received \$4,916 in reimbursements for salary and benefits for this staff position during calendar year 2010.

B. Highway Safety Grant

The Letcher County Sheriff's office received funding through the Transportation Cabinet Kentucky Office of Highway Safety, Frankfort, KY. Grant funds were used to provide additional road patrols. The Sheriff's office received \$4,704 in grant funds during calendar year 2010.

Note 5. Drug Forfeiture Account

The Letcher County Sheriff has a drug forfeiture account with a beginning balance of \$286. The Sheriff received forfeited funds of \$27,383 and disbursed \$27,279 during calendar year 2010. The balance at December 31, 2010 is \$390.

Note 6. Seized Funds Payable

Funds totaling \$7,490, confiscated during two separate drug related arrests, was found missing in (or about) January 2006. The money was put in an evidence locker located in a closet while awaiting court order for distribution. When the Sheriff received the court order for distribution of funds in one of the cases, the funds for both cases were discovered missing. The issue has been referred to the Kentucky State Police for investigation. If the Sheriff recovers these funds, he should forward 10% to the Commonwealth Attorney as noted in the court order of forfeiture and the remainder should be distributed to the Sheriff's forfeiture account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jim Ward, Letcher County Judge/Executive  
The Honorable Danny Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Letcher County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated November 10, 2011. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Letcher County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Letcher County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

November 10, 2011

COMMENT AND RECOMMENDATION



LETCHER COUNTY  
DANNY WEBB, SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the Sheriff has limited options for establishing an adequate segregation of duties.

Cash receipts by mail are not received and logged by someone who is independent of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. Also, the employee who records cash receipts prepares the deposits and completes the bank reconciliations. Lastly, authorized check signers are not independent of check preparation, purchasing, recording expenditures, and performing bank reconciliations. Good internal controls dictate that the same employee should not be handling, depositing, expending, recording and reconciling cash receipts and disbursements.

If the Sheriff cannot segregate these duties, compensating controls such as the Sheriff recounting the daily deposits, agreeing deposits to daily reports, and agreeing deposits to the receipts ledger should be implemented. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger. The Sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the Sheriff consider implementing compensating controls described above to address this deficiency.

*Sheriff's Response: No response.*

